

## Weekly Report – December 11, 2013

### **Budget Conference Committee – Bipartisan Budget Act of 2013**

- On the net, the legislation *reduces the deficit* by \$23 billion over the next ten years.
- It does so by increasing spending in the early years and spreading offsetting cuts and new revenue generated from user fees over the ten year window.
- Specifically, the package increases the BCA discretionary spending caps for FY14 and FY15 by a total of \$63.4 billion. That increase is offset by spending cuts and revenue increases of approximately \$85 billion spread over ten years.



### **The Budget Schedule Ahead**

- CR expires January 15, 2014
- Debt Ceiling Suspension Ends February 8, 2014
  - The Bipartisan Policy Center estimates that this will add \$600 billion to the debt ceiling.
  - CBO recently released estimates that extraordinary measures will extend Treasury's borrowing authority through mid-March at the earliest and June at the latest.

### **CBO Released Updated Volume of Budget Options**

- CBO recently released its Options for Reducing the Deficit: 2014 to 2023
  - CBO published 10-year savings scores on over 100 proposals pertaining to mandatory spending, health programs, discretionary spending, and revenues. <http://www.cbo.gov/publication/44715>
- CBO is scheduled to release a formal cost estimate today on the Bipartisan Budget Act.

### **RSC 2014 Budget – Initial Staff Meeting Next Week**

- The Budget and Spending Task Force will host its first staff level meeting on Monday, December 16<sup>th</sup> at 2:00 p.m. in Longworth 1628. The meeting agenda will introduce staff to the RSC Budget process and help foster discussion for policy priorities in the 2014 Budget.
- Please contact either Will Dunham with RSC at x:6-0718 or [will.dunham@mail.house.gov](mailto:will.dunham@mail.house.gov) or Nick Myers in Congressman Woodall's Office at x: 5-4272 or [nick.myers@mail.house.gov](mailto:nick.myers@mail.house.gov) if you are interested in joining the BSTF.

## **A Least Bad Budget Deal –*More spending now for some genuine, if modest, reforms.***

The best that can be said about the House-Senate budget deal announced late Tuesday is that it includes no tax increases, no new incentives for not working, and some modest entitlement reforms. Oh, and it will avoid another shutdown fiasco, assuming enough Republicans refuse to attempt suicide a second time. The worst part of the two-year deal is that it breaks the 2011 Budget Control Act's discretionary spending caps for fiscal years 2014 and 2015. The deal breaks the caps by some \$63 billion over the two years and then re-establishes the caps starting in 2016 where they are in current law at \$1.016 trillion. Half of the increase will go to defense and half to the domestic accounts prized by Democrats.

Breaking the caps is a victory for Senate Democrats and House Republican Appropriators like Oklahoma's Tom Cole, who will get more money to spend and will dodge another continuing resolution that doesn't allow them to set spending priorities. It would be nice to think they'll spend the money on such useful purposes as cancer or Alzheimer's research at the National Institutes of Health. But they will also get to dole out pork. The deal means overall federal spending will not decline in 2014 as it has the last two years.

To offset the extra spending without adding to the deficit over 10 years, the deal includes about an \$85 billion grab bag of new fees, some amusingly revealing program changes, and modest entitlement reforms. The fees add up to about \$26 billion over 10 years, and they are all charges for government services that were proposed in chief GOP negotiator [Paul Ryan](#)'s previous House budget resolutions.

Fees for services aren't tax increases on income or sales. But that doesn't mean they won't be felt by average Americans, notably in a higher levy for the high honor of being patted down by the Transportation Security Administration. The feds currently charge \$2.50 on nonstop flights, and \$5 for flights with a connection, and the deal will establish a simple \$5.60 fee for all one-way trips regardless of the number of connections. The fees will be passed along to passengers in higher ticket costs.

The various program changes are revealing because they include the kind of granular inspection that even a modestly competent government would already be doing. Who knew there wasn't a cap on how much federal contractors could bill for personal compensation? This deal caps it at \$487,000. And did you know that the feds keep a Death Master File of dead Americans and their Social Security numbers but don't restrict access to it to prevent fraud? This deal will do it. The changes show how false it is for President Obama to claim that somehow the sequester and budget caps have cut the government to the bone. The truth is that it has finally forced some long overdue scouring for waste.

Perhaps the best conceptual precedent is that the deal trades discretionary spending increases for entitlement reforms, albeit small. Heretofore the Democrats have insisted on tax increases to offset any entitlement changes. The changes are modest because Democrats refuse to budge on Medicaid, Medicare and Social Security that are the biggest drivers of future liabilities. Americans are going to have to elect a GOP Senate in 2014 and a new President if they want to solve those problems.

But Mr. Ryan was able to negotiate a significant change to the pensions of federal government workers and the military. This will save \$12 billion over 10 years, \$6 billion each from civilians and the military, and much more over time. These savings are genuine because they result from a change in law that won't expire, not a promise of future changes that everyone knows will never happen.

Hard to believe, but federal employees currently receive both a pension and a 401(k)-style plan with a taxpayer matching contribution. Most Americans in the private economy get one or the other if they get anything at all. Federal workers also contribute a mere 0.8% of their annual pay to their pension, which is unheard of even in major corporations. The deal increases that by 1.3-percentage points for new federal hires.

Mr. Ryan would have done this for all federal employees, which would only be fair, but he had to settle for new hires to win Democratic votes because he knows some tea-party Republicans will refuse to vote for any budget. This is another way that GOP disunity gives more leverage for Democrats to resist bigger reforms.

Military retirees under age 62 will see their cost-of-living increases reduced to the annual increase in the consumer price index minus 1%. The military brass requested this as a way to help them adjust to the decline in overall military spending. As many experts have written on these pages, the military's exploding pension and health-care costs need to be restrained to be able to keep a trained and well-equipped active force.

All of this doesn't begin to match the magnitude of America's fiscal challenges, but it is probably the best that the GOP could get considering Washington's current array of political forces. We'd have preferred that the discretionary caps held, but that became impossible when the defense hawks and Appropriators threatened to revolt. Many conservatives will also gripe, but those who forced the October shutdown should blame themselves because they left GOP leaders in a weaker position that gave the spenders more leverage.

The question for Republicans is what happens if this fails? It means more turmoil, more evidence that the GOP can't govern, and the risk of another shutdown. By contrast this deal pushes the budget debate past next November and lets Republicans focus on [ObamaCare](#) and its many ills. One promise conservatives should exact from Speaker [John Boehner](#) is that if this deal passes, he won't do a side agreement with Democrats later to extend jobless benefits. In any case we doubt any other Republican could have done much better than this least bad agreement.